Merafong City Local Municipality
Annual Financial Statements
for the year ended 30 June 2013

General Information

Legal form of entity	Local Municipality
Legislation governing the municipality's operations	Municipal Finance Management Act (Act no.56 of 2003)
Mayoral committee	
Executive Mayor	Mogale Letsie SM
Councillors	Speaker: Letheya RI
	MMC Roads Stormwater and Public Works: Dyonase M
	MMC Health and Social Development: Fani NM
	MMC Corporate and Shared Services: Kawe M
	MMC Integrated Environmental Management: Lephuting MB
	MMC Local Economic, Tourism and Rural Development: Makiti MJ
	MMC for Finance: Mathikge WM
	MMC Public Safety and Transport: Molubi MMW
	MMC Electricity Gas and Water: Mogale IM
	MMC Human Settlement and Land Development: Moyeni M
	MMC Sports, Recreation, Arts And Culture: Sello GM
Grading of local authority	The municipality is a category C grade 4 local authority in terms of item 4 of the Government Notice R1227 of 18 December 2007 published in terms of the Remuneration of Public Office Bearers Act, 1998
Chief Financial Officer (CFO)	M.G. Wienekus
Accounting Officer	Monnapule George Seitisho
Registered office	Halite Street Carletonville
Business address	Halite Street Carletonville
Postal address	PO Box 3, Carletonville, 2500
Bankers	Nedbank Ltd
Auditors	Auditor-General of South Africa

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The reports and statements set out below comprise the annual financial statements presented to the municipal council:

Abbreviations

PHB	Provincial Housing Board
DPLG	Department of Provincial and Local Government
DBSA	Development Bank of South Africa
WRDM	West Rand District Municipality
GRAP	Generally Recognised Accounting Practice
NLDTF	National Lottery Distribution Trust Fund
VAT	Value Added Tax
EPWP	Extended Public Works Programme
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
UIF	Unemployment Insurance Fund
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SDL	Skills Development Levy
WCA	Workmen's Compensation
SALGBC	South African Local Government Bargaining Council

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2013:

M.G. Seitisho
Accounting Officer

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Inventories	11	6 260 698	7 721 380
Receivables from exchange transactions	12	35 147 556	18 472 208
Consumer debtors	14	182 358 082	176 659 004
Long-term receivables	7	-	2 507 964
Cash and cash equivalents	15	434 438 156	305 164 499
		658 204 492	**510 525 055**
Non-Current Assets			
Property, plant and equipment	4	2 804 018 201	2 718 286 755
Intangible assets	5	322 167	1 217 415
Heritage assets	6	42 770	42 770
Long-term receivables	7	6 383	7 905
Investments	10	10 215 120	9 772 346
		2 814 604 641	**2 729 327 191**
Total Assets		**3 472 809 133**	**3 239 852 246**
Liabilities			
Current Liabilities			
Long-term liabilities	16	7 731 367	7 471 442
Finance lease obligation	17	791 297	18 169 831
Payables from exchange transactions	20	144 425 545	108 266 722
VAT payable	21	43 483 166	47 395 059
Consumer deposits	23	10 675 029	10 388 622
Retirement benefit obligation	9	2 294 988	2 351 628
Unspent conditional grants and receipts	18	348 322 685	287 619 939
Provisions	19	16 948 711	16 427 903
		574 672 788	**498 091 146**
Non-Current Liabilities			
Long-term liabilities	16	45 684 396	56 015 801
Finance lease obligation	17	2 328 502	1 989 722
Retirement benefit obligation	9	85 716 598	77 471 437
Provisions	19	13 093 066	11 614 840
		146 822 562	**147 091 800**
Total Liabilities		**721 495 350**	**645 182 946**
Net Assets		**2 751 313 783**	**2 594 669 300**
Net Assets			
Accumulated surplus		2 751 313 783	2 594 669 300

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Property rates	26	261 096 600	85 956 760
Property rates - penalties imposed and collection charges		1 779 965	1 573 626
Service charges	27	472 581 705	436 437 167
Rental of facilities and equipment	26	1 164 309	963 939
Interest earned - external investments		17 089 205	14 890 052
Interest earned - outstanding receivables		24 184 119	17 007 912
Fines		4 245 034	4 499 455
Licences and permits		11 289 098	8 864 568
Government grants & subsidies	28	515 359 267	289 311 342
Public contributions and donations	30	3 677 436	1 661 378
Other income	29	5 417 516	4 834 971
Total revenue		**1 317 884 254**	**866 001 170**
Expenditure			
Employee related costs	32	(259 848 149)	(243 237 849)
Remuneration of councillors	33	(16 618 863)	(15 331 945)
Depreciation and amortisation	36	(102 665 705)	(92 127 050)
Finance costs	37	(6 993 126)	(8 589 792)
Debt impairment	34	(188 605 704)	(49 372 310)
Collection costs		(3 083 882)	(693 277)
Repairs and maintenance		(42 279 027)	(34 741 692)
Bulk purchases	40	(284 451 539)	(267 096 903)
Contracted services	38	(64 747 948)	(51 289 220)
Grants and subsidies paid	39	(134 358 227)	(8 123 173)
General Expenses	31	(56 093 733)	(86 962 809)
Total expenditure		**(1 159 745 903)**	**(857 566 020)**
Operating surplus		**158 138 351**	**8 435 150**
Loss on disposal of assets and liabilities		(1 493 869)	(3 092 960)
Surplus for the year		**156 644 482**	**5 342 190**
Attributable to:			
Owners of the controlling entity		156 644 482	5 342 190

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2 643 813 344	2 643 813 344
Adjustments		
Correction of errors (Note 45)	(54 486 234)	(54 486 234)
Balance at 01 July 2011 as restated	**2 589 327 110**	**2 589 327 110**
Changes in net assets		
Surplus for the year	5 342 190	5 342 190
Total changes	5 342 190	5 342 190
Balance at 01 July 2012	**2 594 669 301**	**2 594 669 301**
Changes in net assets		
Surplus for the year	156 644 482	156 644 482
Total changes	156 644 482	156 644 482
Balance at 30 June 2013	**2 751 313 783**	**2 751 313 783**

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		690 103 420	523 294 412
Grants		577 432 680	428 425 831
Interest income		17 089 205	31 897 964
Other receipts		256 024	256 024
		1 284 881 329	983 874 231
Payments			
Employee costs		(113 609 322)	(113 647 632)
Suppliers		(804 276 339)	(701 000 480)
Finance costs		(6 969 212)	(5 173 728)
Other payments		(16 688 587)	(18 353 147)
		(941 543 460)	(838 174 987)
Net cash flows from operating activities	41	**343 337 869**	**145 699 244**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(194 792 210)	(108 398 710)
Proceeds from sale of property, plant and equipment		5 796 434	2 137 019
Purchase of other intangible assets	5	-	(18 795)
Proceeds from sale of financial assets		2 509 486	1 170 628
Purchase of investments		(442 774)	(467 618)
Net cash flows from investing activities		**(186 929 064)**	**(105 577 476)**
Cash flows from financing activities			
Repayment of long-term liabilities		(10 071 480)	(7 074 945)
Finance lease payments		(17 063 668)	(6 819 581)
Net cash flows from financing activities		**(27 135 148)**	**(13 894 526)**
Net increase/(decrease) in cash and cash equivalents		**129 273 657**	**26 227 242**
Cash and cash equivalents at the beginning of the year		305 164 499	278 937 257
Cash and cash equivalents at the end of the year	15	**434 438 156**	**305 164 499**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	509 219 000	(14 091 000)	**495 128 000**	472 581 705	**(22 546 295)**	
Rental of facilities and equipment	675 000	6 000	**681 000**	1 164 309	**483 309**	
Interest received (trading)	-	19 358 000	**19 358 000**	24 184 119	**4 826 119**	
Licences and permits	33 873 000	(65 000)	**33 808 000**	11 289 098	**(22 518 902)**	
Other income	10 955 000	1 427 000	**12 382 000**	5 417 516	**(6 964 484)**	
Interest received - investment	37 892 000	(20 950 000)	**16 942 000**	17 089 205	**147 205**	
Gains on disposal of assets	-	3 933 000	**3 933 000**	-	**(3 933 000)**	
Total revenue from exchange transactions	**592 614 000**	**(10 382 000)**	**582 232 000**	**531 725 952**	**(50 506 048)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	197 635 000	71 972 000	**269 607 000**	261 096 600	**(8 510 400)**	
Property rates - penalties imposed	1 955 000	-	**1 955 000**	1 779 965	**(175 035)**	
Government grants & subsidies	561 732 000	55 711 000	**617 443 000**	515 359 267	**(102 083 733)**	
Transfer revenue						
Public contributions and donations	-	-	**-**	3 677 436	**3 677 436**	
Fines	5 682 000	-	**5 682 000**	4 245 034	**(1 436 966)**	
Total revenue from non-exchange transactions	**767 004 000**	**127 683 000**	**894 687 000**	**786 158 302**	**(108 528 698)**	
Total revenue	**1 359 618 000**	**117 301 000**	**1 476 919 000**	**1 317 884 254**	**(159 034 746)**	
Expenditure						
Personnel	(287 929 000)	(26 373 000)	**(314 302 000)**	(259 848 149)	**54 453 851**	
Remuneration of councillors	(15 903 000)	(724 000)	**(16 627 000)**	(16 618 863)	**8 137**	
Depreciation and amortisation	(95 506 000)	(9 494 000)	**(105 000 000)**	(102 665 705)	**2 334 295**	
Finance costs	(15 797 000)	7 000 000	**(8 797 000)**	(6 993 126)	**1 803 874**	
Debt impairment	(90 603 000)	-	**(90 603 000)**	(188 605 704)	**(98 002 704)**	
Collection costs	(3 100 000)	-	**(3 100 000)**	(3 083 882)	**16 118**	
Repairs and maintenance	(52 957 949)	(11 205 937)	**(64 163 886)**	(42 279 027)	**21 884 859**	
Bulk purchases	(309 967 000)	7 209 911	**(302 757 089)**	(284 451 539)	**18 305 550**	
Contracted Services	(55 582 000)	(9 374 000)	**(64 956 000)**	(64 747 948)	**208 052**	
Grants and subsidies paid	(145 310 000)	(307 115 000)	**(452 425 000)**	(134 358 227)	**318 066 773**	
General Expenses	(116 597 051)	(13 908 063)	**(130 505 114)**	(56 093 733)	**74 411 381**	
Total expenditure	**(1 189 252 000)**	**(363 984 089)**	**(1 553 236 089)**	**(1 159 745 903)**	**393 490 186**	
Operating surplus	**170 366 000**	**(246 683 089)**	**(76 317 089)**	**158 138 351**	**234 455 440**	
Loss on disposal of assets and liabilities	-	(72 935)	**(72 935)**	(1 493 869)	**(1 420 934)**	
Surplus	**170 366 000**	**(246 683 089)**	**(76 317 089)**	**156 644 482**	**232 961 571**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**170 366 000**	**(246 683 089)**	**(76 317 089)**	**156 644 482**	**232 961 571**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. When any significant judgements and sources of estimation uncertainty are applicable, they have been disclosed in the relevant notes and policies.

Accounting Policies

1.2 Property, plant and equipment

INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset and the cost or fair value of the item can be measured reliably.

DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Infrastructure		**Other**	
Roads and Paving	30 Years	Buildings	30 Years
Pedestrian Malls	30 Years	Specialist vehicles	6 - 10 Years
Electricity	20 - 45 Years	Other vehicles	5 Years
Water	15 - 25 Years	Office equipment	3 - 7 Years
Sewerage	15 - 20 Years	Furniture and fittings	7 Years
		Watercraft	15 Years
Community		Bins and containers	10 Years
		Plant and equipment	2 - 15 Years
Buildings	30 Years	Landfill sites	15 Years
Recreational Facilities	20 - 30 Years	Quarries	15 Years
Security	5 Years	Emergency equipment	5 Years
Halls	30 Years	Computer equipment	5 Years
Libraries	30 Years	Library Material	8 Years
Parks and gardens	30 Years	Library Material	8 Years
Other assets	5 Years		
Finance lease assets			
Office equipment	3 - 6 Years		

Accounting Policies

1.2 Property, plant and equipment (continued)

Other assets 5 Years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.3 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Accounting Policies

1.3 Intangible assets (continued)

INITIAL RECOGNITION

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:
• the municipality intends to complete the intangible asset for use or sale;
• it is technically feasible to complete the intangible asset;
• the municipality has the resources to complete the project; and
• it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	4 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.4 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Accounting Policies

1.4 Heritage assets (continued)

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.4 Heritage assets (continued)

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Transitional provision

The municipality changed its accounting policy for heritage assets in 2013. The change in accounting policy is made in accordance with its transitional provision as per Directive 3 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in 6. The transitional provision expires on 30/06/2015.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality’s statement of financial position.

Accounting Policies

1.5 Financial instruments (continued)

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Accounting Policies

1.5 Financial instruments (continued)

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other receivables (including long-term receivables)	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long-term liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Accounting Policies

1.5 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

[For financial assets and financial liabilities designated at fair value, state the nature of the instrument, the criteria for designating the financial asset at initial recognition and the circumstances under which financial liabilities have been designated at fair value at initial recognition. Provide details of the recognition or measurement inconsistency that would have arisen had the liability not been designated at fair value.]

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

Accounting Policies

1.5 Financial instruments (continued)

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.5 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - Recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.5 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the municipality directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

1.7 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Foreign currency future cash flows

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. The municipality translates the present value using the spot exchange rate at the date of the value in use calculation.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

1.9 Employee benefits (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the most appropriate between the following approaches:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Accounting Policies

1.9 Employee benefits (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

Accounting Policies

1.10 Employee benefits

RETIREMENT BENEFIT

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

MEDICAL AID: CONTINUED MEMBERS

The municipality provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the municipality for the remaining portion.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.10 Employee benefits (continued)

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

Accounting Policies

1.11 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:
(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

LANDFILL REHABILITATION

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the Provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which is currently 7.5% (2012:7.61%).

The municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

The asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on. the average of the past six months readings

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

Revenue from the sale of goods is recognised when the following conditions have been satisfied:
- The municipality has transferred to the buyer the significant risks and rewards of ownership.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.13 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Accounting Policies

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8 and 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds 12 months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.19 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

1.21 Going concern

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality provides information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2012 to 30/06/2015.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of Comparison of Budget and Actual Amounts.

1.23 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Notes to the Annual Financial Statements

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following newly effective standards.

- GRAP 21 - Impairment of Non-cash-generating Assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 26 - Impairment of Cash-generating Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Changes due to the newly effective GRAP standards' implementation

GRAP 21 - Impairment of Non-cash-generating Assets
The Accounting Policy has changed (see accounting policy note 1.9). No substantial application changes were experienced with the implementation of the standard.

GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
The Accounting Policy has changed (see accounting policy note 1.13). No substantial changes were experienced with the implementation of the standard.

GRAP 24 - Presentation of Budget Information in Financial Statements
The Accounting Policy has changed (see accounting policy note 1.22). Budget versus Actual information was previously disclosed as a note the annual financial statements, but has now been presented as an additional Statement in the Annual Financial Statements and an additional note has been introduced where Budget differences are disclosed (see note).

GRAP 26 - Impairment of Cash-generating Assets
The Accounting Policy has changed (see accounting policy note 1.8). No substantial changes were experienced with the implementation of the standard.

GRAP 103 - Heritage Assets
During the year, the municipality changed its accounting policy with respect to the treatment of Heritage Assets, in order to conform with the requirements of GRAP 103 – Heritage Assets. The municipality now present Heritage Assets as a separate line item in the Statement of Financial Position and not as part of Property, plant and equipment. There is also now a separate Accounting Policy (see accounting policy note 1.4), as well as separate note for Heritage assets (see note 6). The change in accounting policy is made in accordance with the transitional provision in Directive 3, where the municipality is granted a 3 year period to comply with the measurement requirements of the standard. See accounting policy note 1.4 and note 6 for additional details.

GRAP 104 - Financial Instruments
During the year, the municipality changed its accounting policy with respect to the treatment of Financial Instruments. In order to conform with the requirements of GRAP 104 – Financial Instruments. The municipality changed its classification of Financial Instruments from the following categories:
Held-to-maturity investments
Loans and receivables
Available-for-sale financial assets
Financial liabilities measured at amortised cost

To the following categories:
Financial instruments at amortised cost

The Accounting Policy has changed substantially (see accounting policy note 1.5), and various changes to other disclosures have been made within the annual financial statements.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2013 is as follows:

2. Changes in accounting policy (continued)

Statement of financial position

	2013	2012
Property, plant and equipment		
Adjustment (Move to Heritage Assets)	(42 770)	-
Heritage Assets		
Adjustment	42 770	-

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 July 2014	Not material
• GRAP 25: Employee benefits	01 July 2013	Not material
• GRAP 105: Transfers of functions between entities under common control	01 July 2014	Not material
• GRAP 106: Transfers of functions between entities not under common control	01 July 2014	Not material
• GRAP 107: Mergers	01 July 2014	Not material
• GRAP 20: Related parties	01 July 2014	Not material
• IGRAP 11: Consolidation – Special purpose entities	01 July 2014	Not material
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 July 2014	Not material
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 July 2014	Not material
• GRAP 7 (as revised 2010): Investments in Associates	01 July 2014	Not material
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 July 2014	Not material
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 July 2013	Not material
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 July 2013	Not material
• GRAP 7 (as revised 2012): Investments in Associates	01 July 2013	Not material
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 July 2013	Not material
• GRAP 12 (as revised 2012): Inventories	01 July 2013	Not material
• GRAP 13 (as revised 2012): Leases	01 July 2013	Not material
• GRAP 16 (as revised 2012): Investment Property	01 July 2013	Not material
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 July 2013	Not material
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 July 2013	Not material
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 July 2013	Not material
• IGRAP16: Intangible assets website costs	01 July 2013	Not material
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013	Not material

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and buildings	665 955 416	(182 911 651)	483 043 764	633 847 605	(165 339 954)	468 507 651
Infrastructure	3 673 299 835	(1 371 856 157)	2 301 443 679	3 513 684 793	(1 289 263 750)	2 224 421 043
Community	17 649 974	(11 981 521)	5 668 452	16 750 346	(9 887 728)	6 862 618
Finance lease assets	1 896 661	(1 615 494)	281 167	47 192 632	(40 203 316)	6 989 316
Other property, plant and equipment	36 607 197	(23 026 057)	13 581 139	34 292 006	(22 785 879)	11 506 127
Total	**4 395 409 080**	**(1 591 390 879)**	**2 804 018 201**	**4 245 767 382**	**(1 527 480 627)**	**2 718 286 755**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Total**
Land and buildings	468 507 651	29 415 628	-	(14 879 514)	483 043 765
Infrastructure	2 224 421 043	160 807 471	-	(83 784 835)	2 301 443 679
Community	6 862 618	899 628	-	(2 093 793)	5 668 453
Finance lease assets	6 989 317	-	(6 979 166)	271 017	281 168
Other property, plant and equipment	11 506 126	3 669 483	(311 137)	(1 283 336)	13 581 136
	2 718 286 755	**194 792 210**	**(7 290 303)**	**(101 770 461)**	**2 804 018 201**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Disposals**	**Other changes, movements**	**Depreciation**	**Total**
Land and buildings	468 726 426	14 278 423	(4 216 960)	-	(10 280 238)	468 507 651
Infrastructure	2 214 287 304	88 832 647	-	-	(78 698 908)	2 224 421 043
Community	6 723 221	757 142	-	-	(617 745)	6 862 618
Finance lease assets	12 386 928	423 692	-	-	(5 821 303)	6 989 317
Other property, plant and equipment	9 717 450	4 106 806	(1 013 019)	-	(1 305 111)	11 506 126
	2 711 841 329	**108 398 710**	**(5 229 979)**	**-**	**(96 723 305)**	**2 718 286 755**

Work-in-progress (Included in Infrastructure)		
Opening balance	158 478 801	391 625 596
Additions	190 353 048	103 088 571
Transferred to finished items (transfers from work-in-progress to completed assets)	(173 591 613)	(336 235 366)
	175 240 236	**158 478 801**

Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

5. Intangible assets

	2013			2012		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	5 582 744	(5 260 577)	322 167	5 582 744	(4 365 329)	1 217 415

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software	1 217 415	(895 248)	322 167

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	2 069 713	18 795	-	(871 093)	1 217 415

6. Heritage assets

	2013			2012		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	42 770	-	42 770	42 770	-	42 770

Reconciliation of heritage assets 2013

	Opening balance	Total
Art Collections, antiquities and exhibits	42 770	42 770

Reconciliation of heritage assets 2012

	Opening balance	Other changes, movements	Total
Art Collections, antiquities and exhibits	42 785	(15)	42 770

6. Heritage assets (continued)

Transitional provisions

Heritage assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 3 of the GRAP Reporting Framework, as disclosed in note 2, certain heritage asset with a carrying value of R 42 770 (2012: R 42 770) was recognised at provisional amounts. Carrying amounts of heritage asset carried at provisional amounts are as follows:

Due to initial adoption of GRAP 103

Steps taken to establish the values of heritage asset recognised at provisional amounts due to the initial adoption of GRAP 103, is as follows:

Merafong City Local Municipality embarked on a project to determine cultural tourism products. One of the primary deliverables was a comprehensive heritage register. The report was compiled in line with the requirements of the National Heritage Resources Act, Act No. 25 of 1999. This report was used along with the guides issued by the Office of the Accountant General and National Treasury. The requirements of GRAP 103 were used to determine the criteria of identifying a Heritage Asset. The outcome of this exercise has concluded that as at 30 June 2013 the municipality has Artwork that qualifies as Heritage Assets.

The date at which full compliance with GRAP 103 is expected, is 30 June 2015.

7. Long-term receivables

	2013	2012
At amortised cost		
Consumer loans	181 269	173 130
Consumer Loans are granted to consumers for the purchase of stands and are charged interest equal to the prevailing prime rate		
Computer loans	6 383	7 905
Computer loans are charged at an interest rate equivalent to the rate that Council invests funds during the year		
Bursaries	1 156 192	1 091 701
Bursaries were granted in terms of a specific policy at an interest rate of 8% if a candidate passes or 10% if a candidate fails his/her academic year		
DBSA	-	2 507 964
Claim for work done with no terms and conditions attached currently		
	1 343 844	3 780 700
Impairments	(1 337 461)	(1 264 831)
	6 383	**2 515 869**

	2013	2012
Non-current assets		
At amortised cost	6 383	7 905
Current assets		
At amortised cost	-	2 507 964

Financial assets at amortised cost

Financial assets at amortised cost impaired

As of 30 June 2013, long-term receivables of R 1 337 461 (2012: R 1 264 831) were impaired and provided for.

The amount of the provision was R 1 337 461 as of 30 June 2013 (2012: R 1 264 831).

8. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

8. Financial assets by category (continued)

At amortised cost		
Trade and other receivables	182 358 084	176 659 005
Long-term receivables	6 383	2 515 869
Cash and cash equivalents	434 438 156	305 164 499
Investments	10 215 120	9 772 346
Other receivables from exchange transactions	35 147 556	18 472 208
	662 165 299	**512 583 927**

9. Employee benefit obligations

Defined benefit plan

The following is defined as a benefit plan: Joint Municipal Pension Fund. These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

ARCH Actuaries performed the atuarial valuations at at 30 June 2013 as well as 30 June 2012.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(88 011 586)	(79 823 065)
Non-current liabilities	(85 716 598)	(77 471 437)
Current liabilities	(2 294 988)	(2 351 628)
	(88 011 586)	**(79 823 065)**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(79 823 065)	(69 359 748)
Contributions (benefits paid)	2 196 666	2 124 444
Net expense recognised in the statement of financial performance	(10 385 187)	(12 587 761)
	(88 011 586)	**(79 823 065)**

Net expense recognised in the statement of financial performance

Current service cost	(4 139 590)	(3 490 392)
Interest cost	(6 223 347)	(5 938 055)
Actuarial losses	(22 250)	(3 159 314)
	(10 385 187)	**(12 587 761)**

Actuarial losses are recognised in period in which they occur.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

9. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,92 %	7,00 %
Healthcare cost inflation rate	7,94 %	6,00 %
Net effective discount rate	0,90 %	1,00 %

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

9. Employee benefit obligations (continued)

2013

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	**Change**	**In-service**
Central Assumptions		59.767
Health care inflation	1%	69.299
	-1%	26.023
Post-retirement mortality	-1 yr	29.533
Average retirement age	-1 yr	65.203
Withdrawal Rate	-50%	65.020

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	**Continuation**	**Total**	**% change**
Central Assumptions	28.245	88.012	
Health care inflation	30.735	100.034	14%
	26.023	77.472	-12%
Post-retirement mortality	29.533	91.432	4%
Average retirement age	28.245	93.448	6%
Withdrawal Rate	28.245	93.265	6%

Sensitivity Analysis on the Current-service and Interest Costs

Assumption	**Change**	**Current-service Cost**
Central Assumptions		4,139,600
Health care inflation	1%	5,001,000
	-1%	3,451,500
Post-retirement mortality	-1 yr	4,281,000
Average retirement age	-1 yr	4,576,700
Withdrawal Rate	-50%	4,632,600

Sensitivity Analysis on the Current-service and Interest Costs

Assumption	**Interest Cost**	**Total**	**% change**
Central Assumptions	6,223,300	10,362,900	
Health care inflation	7,221,100	12,222,100	18%
	5,400,200	8,851,700	-15%
Post-retirement mortality	6,455,000	10,736,000	4%
Average retirement age	6,535,200	11,111,900	7%
Withdrawal Rate	6,518,300	11,150,900	8%

There are no plan assets.

Key demographic assumptions

Assumption	**Value**
Average retirement age	65 for males; 60 for females
Continuation of membership at retirement	95%
Proportion assumed married at retirement	90%
Proportion of eligible current non-member employees joining the scheme by retirement	10%
Mortality during employment	SA 85-90
Mortality post-retirement	PA90-1

	Age	Females	Males
Withdrawals from service (sample annual rates)	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	>55	0%	0%

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

9. Employee benefit obligations (continued)

2012

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service
Central Assumptions		43.07
Health care inflation	1%	51.53
	-1%	36.27
Post-retirement mortality	-1 yr	44.59
Average retirement age	-1 yr	47.01
Withdrawal Rate	-50%	46.80

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Continuation	Total	% change
Central Assumptions	36.74	79.82	
Health care inflation	40.90	92.43	16%
	28.71	69.41	-13%
Post-retirement mortality	38.15	82.75	4%
Average retirement age	36.74	83.76	5%
Withdrawal Rate	36.74	83.55	5%

Sensitivity Analysis on the Current-service and Interest Costs

Assumption	Change	"Current-service Cost "
Central Assumptions		3,490,400
Health care inflation	1%	4,302,100
	-1%	2,860,700
Post-retirement mortality	-1 yr	3,606,000
Average retirement age	-1 yr	3,686,900
Withdrawal Rate	-50%	3,989,200

Sensitivity Analysis on the Current-service and Interest Costs

Assumption	Interest Cost	Total	% change
Central Assumptions	5,938,100	9,428,500	
Health care inflation	6,943,700	11,245,800	19%
	7,981,700	5,121,000	-15%
Post-retirement mortality	6,154,200	9,760,200	4%
Average retirement age	6,208,900	9,895,800	5%
Withdrawal Rate	6,265,800	10,255,000	9%

There are no plan assets.

Key demographic assumptions

Assumption	Value		
Average retirement age	65 for males; 60 for females		
Continuation of membership at retirement	95%		
Proportion assumed married at retirement	90%		
Proportion of eligible current non-member employees joining the scheme by retirement	10%		
Mortality during employment	SA 85-90		
Mortality post-retirement	PA90-1		
Withdrawals from service (sample annual rates)	Age	Females	Males
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	>55	0%	0%

10. Investments

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

10. Investments (continued)

At amortised cost		
Fixed deposits	10 215 120	9 772 346

Pledged investments

Fixed deposits amounting to R10,215,120 (2012 - R9,772,346) has been invested for the purpose of repaying long-term liabilities.

Credit quality of investments

The credit quality of investments can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

11. Inventories

Consumable stores	5 632 072	7 312 938
Water	628 626	564 803
	6 260 698	7 877 741
Inventories (Provision for obsolete stock)	-	(156 361)
	6 260 698	**7 721 380**

Reconciliation of Consumable stores		
Opening balance	7 156 576	6 939 781
Additions	3 737 410	7 530 638
Issued (expensed)	(5 261 914)	(7 157 482)
Provision for obsolete stock	-	(156 361)
	5 632 072	**7 156 578**

Reconciliation of Water		
Opening balance	564 804	495 102
Additions	136 412 332	131 450 322
Issued (expensed)	(136 348 509)	(131 380 620)
	628 627	**564 804**

12. Receivables from exchange transactions

Other receivables	33 310 800	16 614 569
Prepaid expenses	36 676	57 559
Fraud - cashiers	1 800 080	1 800 080
	35 147 556	**18 472 208**

Fraud Cashiers Debtor: Council discovered an irregularity with the sale of pre paid tokens and the recording of the receipts. Certain funds were not banked and 11 employees were implicated for fraud and criminal cases were opened. Cases are not yet finalised as at Statement of Financial Position date.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

13. Receivables from non-exchange transactions

North West Department of Health	15 852 038	15 852 038
Less: Provision for debt impairment	(15 852 038)	(15 852 038)
	-	-

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(15 852 038)	(15 852 038)

14. Consumer debtors

Gross balances		
Rates	193 154 340	100 135 284
Electricity	40 113 723	35 507 620
Water	193 671 882	119 317 319
Sewerage	52 120 535	44 679 933
Refuse	82 239 192	74 008 075
Other	231 868 862	252 498 338
	793 168 534	**626 146 566**
Less: Allowance for impairment		
Rates	(148 950 989)	(88 335 690)
Electricity	(38 542 595)	(35 263 433)
Water	(178 033 528)	(108 304 457)
Sewerage	(47 103 676)	(41 806 587)
Refuse	(75 413 593)	(69 553 724)
Other	(122 766 071)	(106 223 673)
	(610 810 452)	**(449 487 562)**
Net balance		
Rates	44 203 351	11 799 595
Electricity	1 571 128	244 186
Water	15 638 354	11 012 861
Sewerage	5 016 859	2 873 345
Refuse	6 825 599	4 454 352
Other	109 102 791	146 274 665
	182 358 082	**176 659 004**
Rates		
Current (0 -30 days)	20 555 965	6 873 777
31 - 60 days	16 069 846	4 700 122
61 - 90 days	13 662 056	1 474 062
91 - 120 days	13 317 301	1 321 575
121 - 365 days	39 421 873	7 296 920
> 365 days	90 127 299	78 468 828
	193 154 340	**100 135 281**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

14. Consumer debtors (continued)

Other		
Current (0 -30 days)	45 265 555	44 753 403
31 - 60 days	24 346 729	29 353 630
61 - 90 days	18 259 435	14 152 202
91 - 120 days	13 179 147	12 842 759
121 - 365 days	40 969 772	79 785 200
> 365 days	457 993 556	345 124 091
	600 014 194	**526 011 282**

Figures in Rand	2013	2012

14. Consumer debtors (continued)

Summary of debtors by customer classification

Consumers/Households		
Current (0 -30 days)	44 248 984	44 518 979
31 - 60 days	25 262 363	26 831 026
61 - 90 days	19 103 444	14 253 962
91 - 120 days	14 544 116	13 242 850
121 - 365 days	44 067 905	83 094 503
> 365 days	514 162 062	401 520 169
	661 388 874	583 461 489
Less: Allowance for impairment	(550 140 472)	(419 136 164)
	111 248 402	**164 325 325**

Industrial/ commercial		
Current (0 -30 days)	20 045 400	2 799 239
31 - 60 days	13 558 750	1 412 585
61 - 90 days	11 783 410	555 125
91 - 120 days	11 152 386	236 961
121 - 365 days	33 160 191	1 006 061
> 365 days	16 527 769	2 897 785
	106 227 906	8 907 752
Less: Allowance for impairment	(44 575 762)	(4 329 812)
	61 652 144	**4 577 940**

National and provincial government		
Current (0 -30 days)	1 496 017	1 221 155
31 - 60 days	1 565 604	3 707 393
61 - 90 days	999 270	754 451
91 - 120 days	769 961	600 254
121 - 365 days	1 975 707	2 452 538
> 365 days	11 950 679	7 148 354
	18 757 238	15 884 141
Less: Allowance for impairment	(11 950 679)	(9 324 355)
	6 806 559	**6 559 786**

Other		
Current (0 -30 days)	31 118	3 061 570
31 - 60 days	29 858	2 103 187
61 - 90 days	35 368	62 818
91 - 120 days	29 986	84 269
121 - 365 days	1 187 841	438 142
> 365 days	5 480 346	12 135 044
	6 794 517	17 885 030
	(4 143 537)	(12 721 622)
	2 650 980	**5 163 408**

Total		
Current (0 -30 days)	65 821 519	51 600 942
31 - 60 days	40 416 575	34 054 191
61 - 90 days	31 921 492	15 626 356
91 - 120 days	26 496 449	14 164 334
121 - 365 days	80 391 644	86 991 243
> 365 days	548 120 856	423 701 352

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

14. Consumer debtors (continued)

	793 168 535	626 138 417
Less: Allowance for impairment	(610 810 450)	(445 511 954)
	182 358 085	**180 626 464**

Reconciliation of allowance for impairment

Balance at beginning of the year	(449 487 563)	(405 357 044)
Contributions to allowance	(188 533 077)	(44 130 519)
Debt impairment written off against allowance	27 210 189	-
	(610 810 451)	**(449 487 563)**

Fair value of consumer debtors

The fair value of consumer debtors approximates their carrying amounts.

Consumer debtors past due but not impaired

Consumer debtors which are less than 90 days past due are not considered to be impaired. At 30 June 2013, R 61 085 649 (2012: R 42 838 558) were past due but not impaired.

Consumer debtors impaired

As of 30 June 2013, consumer debtors of R 411 508 105 (2012: R 197 245 294) were impaired and provided for.

Trade and other receivables from non-exchange transactions included in the total above

Rates	44 203 351	11 799 595

15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand (Credit grade: High)	17 316	12 125
Bank balances (Credit grade: High)	35 640 920	21 365 257
Call deposits & short-term investments (Credit grade: High)	398 779 920	283 787 117
	434 438 156	**305 164 499**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

15. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
ABSA Bank Ltd - Current account No. 40-6380-8201	-	-	2 966 055	-	-	2 966 055
NEDBANK Ltd - Current account No. 1454087331	30 031 145	16 453 774	46 919 362	30 549 439	16 994 676	52 062 673
NEDBANK Ltd - Current account No. 1454087358	3 961 804	2 432 750	489 243	3 961 804	2 432 750	489 243
NEDBANK Ltd - Current account No. 1454087366	10 122	11 227	12 187	10 089	11 185	12 187
NEDBANK Ltd - Current account No. 1454087374	11 654	12 736	13 624	11 654	12 688	13 624
NEDBANK Ltd - Current account No. 1454087382	1 107 935	792 881	512 132	1 107 935	789 959	512 132
ABSA Bank Ltd - Savings account No. 9079119247	-	-	82 557 071	-	-	82 557 258
ABSA Bank Ltd - Savings account No. 6074386162	-	-	111 572	-	-	111 572
ABSA Bank Ltd - Savings account No. 8074386033	-	-	92 923	-	-	93 923
ABSA Bank Ltd - Savings account No. 54365896	-	-	101 874	-	-	101 874
NEDBANK Ltd - Savings account No. 7492501323/5	283 652 313	173 744 676	132 887 065	283 652 313	173 744 676	132 887 065
NEDBANK Ltd - Savings account No. 7492501323/7	2 313 309	2 211 131	2 103 224	2 313 309	2 211 131	2 103 224
NEDBANK Ltd - Savings account No. 7492501323/13	1 068 822	1 021 612	971 756	1 068 822	1 021 612	971 756
NEDBANK Ltd - Savings account No. 7492501323/15	111 745 476	106 809 698	-	111 745 476	107 933 698	-
INCA Investment account	-	-	4 000 000	-	-	4 000 000
Cash on hand	17 316	12 125	51 771	17 316	12 125	54 671
Total	**433 919 896**	**303 502 603**	**273 789 859**	**434 438 156**	**305 164 500**	**278 937 257**

16. Other financial liabilities

	2013	2012
At amortised cost		
Bank loans Various loans with redemption dates ranging from 31 December 2011 and 30 June 2025 and interest rates that ranges between floating and 10.97%	53 415 763	63 487 243
Non-current liabilities		
At amortised cost	45 684 396	56 015 801
Current liabilities		
At amortised cost	7 731 367	7 471 442

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

17. Finance lease obligation

Minimum lease payments due		
- within one year	1 274 034	19 128 167
- in second to fifth year inclusive	2 927 231	2 598 688
	4 201 264	21 726 854
less: future finance charges	(1 081 466)	(1 567 302)
Present value of minimum lease payments	**3 119 799**	**20 159 553**
Present value of minimum lease payments due		
- within one year	791 297	18 169 831
- in second to fifth year inclusive	2 328 502	1 989 722
	3 119 799	**20 159 553**
Non-current liabilities	2 328 502	1 989 722
Current liabilities	791 297	18 169 831
	3 119 799	**20 159 553**

The lease terms average from two to five years and the effective borrowing rate is as determined by the Standard Interest Rate to be levied on debt owing to the state. The Amasondo contract is linked to the prime interest rate. Obligations under finance leases are secured by the lessor's title to the leased asset. The Amasondo lease agreement expired on 31 December 2012.

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts from other spheres of government		
MIG Grants	16 278 554	12 210 254
DPLG	989 775	999 815
WRDM	1 294 883	-
Department of Mineral Energy	-	7 195 542
Department of Sports, arts, culture and recreation	117 050	-
Department of Water Affairs	-	500 000
EPWP	6 879 845	5 117 845
Housing resettlement plan	320 675 380	260 273 998
FMG & MSIG	1 042 294	-
Other grants and receipts		
NLDTF	407 503	342 503
Other grants and donations	637 402	979 982
	348 322 685	**287 619 939**

Movement during the year

Balance at the beginning of the year	287 619 939	226 781 249
Additions during the year	393 865 847	269 137 821
Income recognition during the year	(333 163 101)	(208 299 131)
	348 322 685	**287 619 939**

These amounts are invested in a ring-fenced investments until utilised.

19. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for rehabilitation of landfill sites	11 614 840	1 478 226	-	-	13 093 066
Workmen's compensation	545 292	-	(545 292)	-	-
Performance bonus	791 533	511 442	(78 898)	(92 656)	1 131 421
Leave	15 091 078	11 271 361	(10 545 149)	-	15 817 290
	28 042 743	**13 261 029**	**(11 169 339)**	**(92 656)**	**30 041 777**

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for rehabilitation of landfill sites	10 025 577	1 589 263	-	-	11 614 840
Workmen's compensation	-	545 292	-	-	545 292
Performance bonus	1 262 521	619 979	(674 294)	(416 673)	791 533
Leave	12 991 299	10 096 777	(7 996 998)	-	15 091 078
	24 279 397	**12 851 311**	**(8 671 292)**	**(416 673)**	**28 042 743**

	2013	2012
Non-current liabilities	13 093 066	11 614 840
Current liabilities	16 948 711	16 427 903
	30 041 777	**28 042 743**

Provision for rehabilitation of landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at the prevailing prime interest rate, over the estimate useful life of the landfill site.

Performance bonus

Performance bonuses are paid one year in arrears as the assessment of eligible employees has not taken place at the reporting date and no present obligation exists.

Performance bonuses are provided at 14% of the packages of section 57 employees and managers with performance contracts as stated in the contracts.

20. Payables from exchange transactions

	2013	2012
Trade payables	48 217 806	37 111 898
Payments received in advanced	6 946 770	5 373 796
Outstanding cheques	23 763 531	25 914 079
Retentions	20 040 581	11 192 663
Other creditors	45 456 857	28 674 286
	144 425 545	**108 266 722**

Fair value of trade and other payables

The fair value of trade and other payables approximates their carrying amounts.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

21. VAT payable

VAT payable	43 483 166	47 395 059

VAT is accounted for on the payment (cash) basis.

22. Other financial instruments disclosure

Financial instruments in Statement of financial performance

At amortised cost		
Interest income (calculated using effective interest method)		
Interest earned - external investment	17 089 205	14 890 052
Interest earned - outstanding receivables	24 184 119	17 007 912
Interest expense (calculated using effective interest method)		
Finance costs	6 993 126	8 589 792
	48 266 450	**40 487 756**

23. Consumer deposits

Electricity and Water	10 675 029	10 388 622

Guarantees		
Guarantees held in lieu of Electricity and Water Deposits	1 095 820	1 291 820

24. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

At amortised cost		
Trade and other payables	187 908 712	155 661 785
Finance lease obligation	3 119 799	20 159 553
Long-term liabilities	53 415 763	63 487 243
Consumer deposits	10 675 029	10 388 622
Unspent conditional grants and receipts	348 322 685	287 619 939
	603 441 988	**537 317 142**

25. Revenue

Property rates	261 096 600	85 956 760
Property rates - penalties imposed and collection charges	1 779 965	1 573 626
Service charges	472 581 705	436 437 167
Rental of facilities and equipment	1 164 309	963 939
Licences and permits	11 289 098	8 864 568
Government grants & subsidies	515 359 267	289 311 342
Public contributions and donations	3 677 436	1 661 378
Fines	4 245 034	4 499 455
Interest earned - outstanding receivables	24 184 119	17 007 912
Interest earned - external investment	17 089 205	14 890 052
Other income	5 417 516	4 834 971
	1 317 884 254	**866 001 170**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

25. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	472 581 705	436 437 167
Rental of facilities and equipment	1 164 309	963 939
Licences and permits	11 289 098	8 864 568
Interest earned - outstanding receivables	24 184 119	17 007 912
Interest earned - external investment	17 089 205	14 890 052
Other income	5 417 516	4 834 971
	531 725 952	**482 998 609**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	261 096 600	85 956 760
Property rates - penalties imposed and collection charges	1 779 965	1 573 626
Transfer revenue		
Government grants & subsidies	515 359 267	289 311 342
Public contributions and donations	3 677 436	1 661 378
Fines	4 245 034	4 499 455
	786 158 302	**383 002 561**

26. Property rates

Rates received

Residential	291 433 339	105 178 282
Less: Income forgone	(30 336 739)	(19 221 522)
	261 096 600	85 956 760
Property rates - penalties imposed and collection charges	1 779 965	1 573 626
	262 876 565	**87 530 386**

Valuations R'000

Residential	8 127 593	4 547 889
Commercial	7 307 586	1 161 681
State	25 132	77 249
Municipal	137 299	194 539
	15 597 610	**5 981 357**

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2012. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions. A general rate of R0.01 (2012: R0.012023) is applied to property valuations for residential properties, R0.025 (2012: R0.028517) for businesses and R0.03 (2012: R0.03645) for mines to determine assessment rates. Rates are levied on a monthly basis on property owners. Interest at the Prime interest rate is levied on outstanding rates.

The new general valuation was implemented on 01 July 2012.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

27. Service charges

Sale of electricity	208 006 396	182 143 418
Sale of water	206 732 962	199 513 674
Sewerage and sanitation charges	22 797 753	20 297 699
Refuse removal	34 441 974	33 894 192
Rent subsidised housing	602 620	588 184
	472 581 705	**436 437 167**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

28. Government grants and subsidies

Equitable share and other government grants	515 359 267	289 311 342

Equitable Share

The amount received and spent for equitable share was R185 846 000 (2012: R167 953 897).

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 261 (2012: R 235), which is funded from this grant.

MIG Grant

Balance unspent at beginning of year	12 210 254	23 100 650
Current-year receipts	71 663 000	61 137 000
Conditions met - transferred to revenue	(67 594 699)	(68 956 847)
Other	-	(3 070 549)
	16 278 555	**12 210 254**

Conditions still to be met - remain liabilities (see note 18).

This grant was used to construct various infrastructure assets. Funds withheld, and thus not received during the year, amounted to R2 500 000.

DPLG

Balance unspent at beginning of year	-	346 043
Other	-	(346 043)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

This grant was used to construct infrastructure. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

Housing Settlement Plan

Balance unspent at beginning of year	260 273 998	109 539 870
Current-year receipts	300 814 644	182 551 237
Conditions met - transferred to revenue	(240 413 262)	(106 469 949)
Other	-	94 574 326
Non revenue prior year	-	(19 921 486)
	320 675 380	**260 273 998**

Conditions still to be met - remain liabilities (see note 18).

This grant was used to construct housing. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

This grant used to be called North West Provincial Housing Board.

West Rand District Municipality

Balance unspent at beginning of year	-	(718 732)

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

28. Government grants and subsidies (continued)

Current-year receipts	3 085 953	6 936 536
Conditions met - transferred to revenue	(1 791 070)	(6 217 804)
	1 294 883	**-**

Conditions still to be met - remain liabilities (see note 18).

This grant was used to construct infrastructure and to finance a HIV Programme. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

Dr Kaunda District Municipality

Balance unspent at beginning of year	-	369 160
Conditions met - transferred to revenue	-	(369 160)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

This grant was used to construct infrastructure. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

Department of Mineral Energy

Balance unspent at beginning of year	7 195 542	9 520 667
Current-year receipts	7 400 000	8 400 000
Conditions met - transferred to revenue	(14 595 542)	(10 725 125)
	-	**7 195 542**

Conditions still to be met - remain liabilities (see note 18).

This grant was used to construct infrastructure. Other than the unspent amount, the conditions of the grant were met. Funds withheld, and thus not received during the year, amounted to R7 600 000.

Department of Sports, arts, culture and recreation

Balance unspent at beginning of year	-	1 726 563
Current-year receipts	3 680 000	4 350 000
Conditions met - transferred to revenue	(3 562 950)	(6 076 563)
	117 050	**-**

Conditions still to be met - remain liabilities (see note 18).

This grant was used to acquire a library management system. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

Housing resettlement plan

Balance unspent at beginning of year	-	96 153 551
Other	-	(96 153 551)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

This grant was used to construct low cost housing. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

28. Government grants and subsidies (continued)

EPWP

Balance unspent at beginning of year	5 117 845	-
Current-year receipts	1 762 000	2 394 000
Conditions met - transferred to revenue	-	(174 675)
Other	-	2 898 520
	6 879 845	**5 117 845**

Conditions still to be met - remain liabilities (see note 18).

North West Provincial Government (NWPG)

Balance unspent at beginning of year	999 815	-
Conditions met - transferred to revenue	(10 040)	(1 579 225)
Other	-	2 947 484
Non revenue prior year	-	(368 444)
	989 775	**999 815**

Conditions still to be met - remain liabilities (see note 18).

Financial Management Grant (FMG)

Current-year receipts	1 500 000	1 250 000
Conditions met - transferred to revenue	(481 866)	(1 469 151)
Other	-	219 151
	1 018 134	**-**

Conditions still to be met - remain liabilities (see note 18).

Municipal Systems Improvement Grant

Current-year receipts	588 000	800 000
Conditions met - transferred to revenue	(563 840)	(926 892)
Other	-	126 892
	24 160	**-**

Conditions still to be met - remain liabilities (see note 18).

Funds withheld, and thus not received during the year, amounted to R412 000.

Department of Water Affairs

Balance unspent at beginning of year	500 000	-
Current-year receipts	-	500 000
Conditions met - transferred to revenue	(500 000)	-
	-	**500 000**

Conditions still to be met - remain liabilities (see note 18).

NLDTF

Balance unspent at beginning of year	342 503	342 503
Current-year receipts	65 000	-

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

28. Government grants and subsidies (continued)

	407 503	**342 503**

Conditions still to be met - remain liabilities (see note 18).

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, 2006, significant changes will occur as all grants allocated to the municipality are reduced substantially.

29. Other income

	2013	2012
Administrative costs	490 929	533 204
Building plan fees	261 151	106 920
Certificates and levies	855 221	954 891
Claims	156 945	291 668
Commission and other recoveries	291 340	316 228
Dumping	150 185	144 913
Electricity meter conversions	229 039	718 756
Fees and permits	879 637	783 043
Other income	2 103 069	985 348
	5 417 516	**4 834 971**

30. Public contributions and donations

	2013	2012
Public contributions and donations		
Public contributions - Unconditional	-	-
Donations	3 677 436	1 661 378
	3 677 436	**1 661 378**

These contributions and donations were used to construct infrastructure. Other than the unspent amount, the conditions of these were met. No funds have been withheld.

	2013	2012
Reconciliation of unspent public contributions and donations		
Balance unspent at the beginning of the year	979 984	450 705
Current year receipts	3 372 252	2 190 657
Conditions met - transferred to revenue	(3 677 436)	(1 661 378)
	674 800	**979 984**

Notes to the Annual Financial Statements

31. General expenses

Figures in Rand	2013	2012
Advertising	643 509	763 658
Bank charges	2 625 253	1 864 051
Cleaning	353 135	404 942
Consulting and professional fees	2 644 255	6 579 134
Consumables	210 344	171 834
Donations	12 000	20 200
Entertainment	906 521	998 559
Gifts	68 228	210 120
Hire	537 180	1 036 644
Community development and training	3 488 280	3 517 983
Conferences and seminars	230 969	270 674
IT expenses	289 939	211 239
Horticulture	60 500	144 854
Promotions and sponsorships	1 583 973	1 159 458
Magazines, books and periodicals	230 984	136 416
Medical expenses	6 636	110 478
Fuel and oil	11 659 325	9 879 766
Postage and courier	81 492	48 011
Printing and stationery	1 342 624	1 148 198
Secretarial fees	72 844	119 703
Software expenses	1 762 436	3 863 315
Telephone and fax	4 795 198	4 872 455
Training	341 798	409 414
Travel - local	1 134 595	1 348 231
Refuse	567 446	345 071
Title deed search fees	46 451	63 448
Assets expensed	970 138	5 936 834
Electricity	11 707 814	7 322 203
Sewerage	(8 924)	4 733
Water	919 942	908 719
Tourism development	151 905	110 408
Maps	24 818	15 428
Consumables	469 557	698 377
Reference material	68 870	56 661
Disaster management	639 748	915 906
Employment equity	3 567 535	3 275 805
Clean-up projects	372 999	1 023 866
Maintenance of valuation roll	176 364	-
Khutsong resettlement costs	-	4 160 528
Other expenses	1 337 052	22 835 485
	56 093 733	**86 962 809**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

32. Employee related costs

Housing benefits and allowances	1 334 336	1 445 083
Performance bonus	956 379	619 979
Medical aid - company contributions	16 358 089	14 098 617
Overtime payments	27 532 796	27 751 707
Pension	36 181 742	35 655 260
Long service bonus	1 559 408	1 964 209
Provident fund	1 476 009	1 246 095
SALGBC	76 219	49 740
SDL	1 768 630	1 347 500
Salaries and wages	163 122 574	145 712 878
Travel, motor car, accommodation, subsistence and other allowances	8 038 847	7 343 267
UIF	1 406 708	1 356 435
WCA	36 412	4 647 079
	259 848 149	**243 237 849**

Remuneration of Municipal Manager

Annual Remuneration	514 365	822 531
Travel, motor car, accommodation, subsistence and other allowances	21 278	256 210
Performance & other bonuses	-	199 705
Contributions to UIF, Medical and Pension Funds	-	236 016
	535 643	**1 514 462**

Remuneration of Chief Financial Officer

Annual Remuneration	949 693	839 670
Travel, motor car, accommodation, subsistence and other allowances	92 950	116 725
Performance & other bonuses	-	178 432
Contributions to UIF, Medical and Pension Funds	201 475	214 150
	1 244 118	**1 348 977**

Remuneration of executive directors

2013	Infrastructure Development	Corporate Services	Community Services	Economic Development & Planning	Total
Annual remuneration	646 410	1 037 278	917 284	885 866	3 486 838
Travel, motor car, accommodation, subsistence and other allowances	151 338	94 400	152 146	103 401	501 285
Contributions to UIF, Medical and Pension Funds	122 423	112 442	174 690	254 852	664 407
	920 171	**1 244 120**	**1 244 120**	**1 244 119**	**4 652 530**

2012	Infrastructure Development	Corporate Services	Community Services	Economic Development & Planning	Total
Annual remuneration	362 826	957 607	876 631	515 724	2 712 788
Travel, motor car, accommodation, subsistence and other allowances	70 432	90 537	196 633	240 080	597 682
Performance & other bonuses	56 219	-	178 432	33 745	268 396
Contributions to UIF, Medical and Pension Funds	83 206	110 780	223 339	135 792	553 117
	572 683	**1 158 924**	**1 475 035**	**925 341**	**4 131 983**

Figures in Rand	2013	2012

32. Employee related costs (continued)

Refer to Related Party note for related party relationships (see note 44).

33. Remuneration of councillors

Executive Mayor	713 715	673 095
Executive Committee Members	6 280 731	5 710 903
Speaker	559 701	527 114
Councillors	9 064 717	8 420 832
	16 618 862	**15 331 944**

There are 10 (2012:10) Executive Committee Members and 44 (2012:44) Other Councillors.

In-kind benefits

The Executive Mayor, Speaker, Chief Whip and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle for official duties.

The Executive Mayor has four full-time VIP Security personnel.

The Executive Mayor has two full-time bodyguards.

34. Debt impairment

Debt impairment	188 605 704	49 372 310

35. Investment revenue

Interest revenue		
Bank and investments	17 089 205	14 890 052

36. Depreciation and amortisation

Property, plant and equipment	101 770 457	91 255 957
Intangible assets	895 248	871 093
	102 665 705	**92 127 050**

37. Finance costs

External loans	5 986 015	5 173 728
Finance leases	123 095	2 607 038
Interest: Rehabilitation of landfill sites	884 016	809 026
	6 993 126	**8 589 792**

38. Contracted services

Fleet Services	17 607 580	13 478 794
Operating Leases	1 109 334	1 073 263
Specialist Services	34 121 119	30 213 683
Other Contractors	11 909 915	6 523 480
	64 747 948	**51 289 220**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

39. Grants and subsidies paid

Other subsidies		
Grant/subsidy to indigent consumers	134 358 227	8 123 173
	134 358 227	**8 123 173**

40. Bulk purchases

Electricity	148 103 030	135 716 283
Water	136 348 509	131 380 620
	284 451 539	**267 096 903**

41. Cash generated from operations

Surplus	156 644 482	5 342 190
Adjustments for:		
Depreciation and amortisation	102 665 705	92 127 050
Loss/(Gain) on sale of assets and liabilities	1 493 869	3 092 960
Finance costs - Finance leases	23 914	2 607 038
Debt impairment	188 605 704	49 372 310
Movements in retirement benefit assets and liabilities	8 188 521	10 463 317
Movements in provisions	1 999 034	3 763 346
Other non-cash items	-	(502 811)
Changes in working capital:		
Inventories	1 460 682	(286 497)
Receivables from exchange transactions	(16 675 348)	(12 214 327)
Consumer debtors	(194 304 774)	(105 696 698)
Payables from exchange transactions	36 158 820	25 339 050
VAT	(3 911 893)	5 792 891
Unspent conditional grants and receipts	60 702 746	65 769 455
Consumer deposits	286 407	729 970
	343 337 869	**145 699 244**

42. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment - Infrastructure	135 487 888	388 544 585
• Property, plant and equipment - Community	255 953 801	14 458 775
	391 441 689	**403 003 360**

This expenditure will be financed from:		
Government grants	373 915 967	384 781 890
Own resources	17 525 722	18 221 470
	391 441 689	**403 003 360**

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

43. Contingencies

Contingent liabilities

Claim for payment of “outstanding” construction fees for work done at new Kokosi waste water treatment plant(wwtp) - Claimant: MSD Engineering & Mining Supplies	1 193 789	1 193 789
Claim for access to information in terms of promotion of access to information act 2 of 2000: award of security tender - Claimant: BA & DJ Security	-	100 000
Claim for alleged unfair dismissal: default arbitration award at SALGBC - Claimant: F.P.Caiya	306 000	306 000
Claim for alleged unfair dismissal: arbitration award at SALGBC - Claimant: MM Mofolo and 6 others	800 000	800 000
Claim to set aside appointment of new Municipal Manager - Claimant: SAMWU	1 000 000	1 000 000
Civil claim for outstanding notice pay and continued contribution to medical aid - Claimant: Neels Putter	-	250 000
Civil claim for outstanding councillor salaries - Claimant: MS. H.M van der Merwe	-	80 000
Contingent liability pertaining to arbitration award compelling entity to reinstate and reimburse a dismissed contract employee - Claimant: S. Gaeganelwe	-	800 000
Claim for damages: motor vehicle accident: warrant of execution against property - Claimant: M.F. Meygaarden	110 000	391 429
Combined summons: claim for damages – breach of contract: blybank reservoir supply pipelines – construction of supply and gravity main	8 783 360	-
Review application – labour court: application in terms of section 145 of the labour relations act, 1995 (act 66 of 1995) to set aside arbitration award claimant: Joyce Jofile	800 000	-
Appeals against valuations mining properties claimants: Anglogold Ashanti, Harmony gold, Goldfields	2 000 000	-
	14 993 149	**4 921 218**

44. Related parties

Relationships

Acting Municipal Manager (Key management)	Seitisho, Monnapule, George
Chief Financial Officer (Key management)	Wienekus, Matthys, Gerhardus
Executive Director (Key management)	Blaai Mokgethi, Emily (Doctor)
Executive Director (Key management)	Nieuwoudt, Casper, Wilhelmus, Albertus
Acting Executive Director (Key management)	Murray, Jan, Johannes
Acting Executive Director (Key management)	Moyo, Nontyatyambo

Refer to Employee Related Costs note for remuneration of Key Management Personnel (see note 32).

45. Prior period errors

2013
During the year the municipality conducted a land audit and land were found that did not belong to Merafong and were written off.

Unspent conditional grants were corrected during the year.

General expenses were corrected during the year.

2012
Pre-paid electricity is now correctly accounted for on the accrual basis and not once funds are received.

Property, plant and equipment have been amended with work-in-progress adjustments as well as depreciation adjustments.

The correction of the error(s) results in adjustments as follows:

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

45. Prior period errors (continued)

Statement of financial position		
Property, plant and equipment	(69 616 862)	315 905 493
Trade and other payables from exchange transactions	2 080 974	-
Unspent conditional grants and receipts	20 224 930	-
Opening Accumulated Surplus or Deficit	54 486 234	(330 880 792)
Trade and other receivables from exchange transactions	-	(850 930)

Statement of Financial Performance		
Depreciation	(2 968 557)	14 975 299
General expenses	(2 080 974)	-
Service charges	-	850 930
Government grants & subsidies	(2 125 745)	-

46. Comparative figures

Certain comparative figures have been reclassified and/or renamed in order for the item/transactions to be more in-line with the benchmark presentation and disclosure according to the GRAP Reporting Framework.

47. Risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2013	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Gross lease obligation	791 297	2 328 502	-	-
Long-term liabilities	7 731 367	10 318 074	25 133 503	10 232 819
Trade and other payables	144 425 546	-	-	-

At 30 June 2012	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Gross lease obligation	18 169 831	1 989 723	-	-
Long-term liabilities	7 471 442	7 787 617	19 239 780	28 988 404
Trade and other payables	110 347 696	-	-	-

Interest rate risk

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments.

At year end, financial instruments exposed to interest rate risk were as follows:

Call deposits
Notice deposits
Development Bank of South Africa loan

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

47. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set. The utilisation of credit limits is regularly monitored. Sales to customers are settled in cash or using major credit cards.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2013**	**2012**
Nedbank	434 438 156	305 164 499
Standard Bank	10 215 120	9 772 346
Trade and other receivables	215 775 725	195 131 212

48. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

49. Events after the reporting date

There were no subsequent event after the reporting date which requires disclosure.

50. Unauthorised expenditure

Opening balance	16 442 036	12 493 067
Add: Unauthorised expenditure - current year	-	16 442 036
Less: Amounts condoned or approved by council	(16 442 036)	(12 493 067)
	-	**16 442 036**

51. Irregular, fruitless and wasteful expenditure

Opening balance	11 928 380	2 023 966
Add: Expenditure - current year	6 804 153	11 928 380
Less: Amounts condoned, approved by council or transferred to debtors	(11 928 380)	(2 023 966)
	6 804 153	**11 928 380**

An investigation was conducted by an independent consulting firm on request of the entity. The investigation was initiated based on the allegation of possible collusion between supply chain management personnel and suppliers. The investigation has not yet been finalised.

52. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription	2 420 904	1 099 026
Amount paid - current year	(2 420 904)	(1 099 026)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

52. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year audit fee	3 450 581	2 897 316
Amount paid - current year	(3 450 581)	(2 897 316)
	-	-

PAYE and UIF

Current year payroll deductions	34 728 191	34 866 813
Amount paid - current year	(34 728 191)	(34 866 813)
	-	-

Pension and Medical Aid Deductions

Current year payroll deductions and council contributions	66 095 892	58 773 655
Amount paid - current year	(66 095 892)	(58 773 655)
	-	-

VAT

VAT payable	43 483 166	47 395 059

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

52. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
IR Koboyankwe	2 821	4 334	7 155

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2013	Highest outstanding amount	Aging (in days)
HM Mahome	1 323	90+

30 June 2012	Highest outstanding amount	Aging (in days)
IM Mogale	12 955	90+
IR Koboyankwe	13 846	90+
F Kotze	11 185	90+
HM Mamome	20 142	90+
TD Mlambo	2 382	90+
BJ Ngwetsheni	8 972	90+
MJ Pusho	7 135	90+
EL Sobantu	4 239	90+
	80 856	

53. Utilisation of Long-term liabilities reconciliation

	2013	2012
Used to finance property, plant and equipment	14 747 633	13 081 484
	14 747 633	13 081 484
Cash set aside for the repayment of long-term liabilities	(10 177 088)	(9 772 346)
	-	-

	2013	2012
Long-term liabilities		
Used to finance property, plant and equipment	14 747 633	13 081 484
Cash set aside and invested for the repayment of long-term liabilities	10 177 088	9 772 346

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

54. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The expenses incurred, as listed hereunder, have been approved/condoned		
Emergencies	7 199 478	733 252
Sole supplier	19 800	2 413 041
Other	-	29 245 714
	7 219 278	**32 392 007**

55. Budget differences

Material differences between budget and actual amounts

For details on these changes please refer to pages to in the annual report.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages to in the annual report.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages to in the annual report

56. Distribution losses

During the year under consideration Merafong City Local Municipality had unaccounted water of 38.90% (2012: 33.28%) respectively. The total Rand value of these losses were R23,229,018 (2012: R16,174,583).

During the year under consideration Merafong City Local Municipality had unaccounted Electricity of 18.31% (2012: 20.07%) respectively. The total Rand value of these losses were R27,127,640 (2012: R27,243,862)..